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10

THE TWO ROADS FOR WORLD ECONOMY

Oscar Lange

EDITORS . . . LEO HUBERMAN . . . PAUL M. SWEENEY

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NOTES FROM THE EDITORS

We take this opportunity to thank the many readers who sent us New Year's greetings. We liked particularly the one which greeted "the editors and the entire staff." You can understand our chuckles—the "entire staff" of MR, apart from the editors, consists of one other person who functions as bookkeeper, stenographer, secretary of records, shipping clerk, and anything else.

It isn't that we don't need more help. We do, but we just can't afford it. MR is not self-supporting, and it won't be until we get about 8,000 readers. Though we have done better to date than we have any right to expect, we're still a long way from reaching the 8,000 goal. If we had more money now we'd put it, not into larger staff, but into getting more subscribers.

(continued on inside back cover)

THE WELFARE STATE

If words are given their ordinary connotation, the "welfare state" can only mean a state which actually provides for the welfare of its citizens. In this sense, the welfare state simply does not exist in this country today.

On this question there is ample evidence in the various messages submitted by the President to Congress at the opening of its current session last month. Consider, for example, the following passage from the President's Economic Report to Congress, dated January 6, 1950:

The present programs of social security are grossly inadequate. Because of the limited coverage of the present laws, and the exhaustion of benefits by many workers, one-third of the unemployed are now receiving no unemployment insurance benefits, and in some areas the proportion approaches two-thirds.

Many communities provide no public funds for the relief of jobless workers and their families.

There are also several million disabled workers, many with families to support, who are not eligible for public insurance benefits. In some places, they do not even receive public relief.

Only 650,000 of the millions of bereaved or broken families with very low income are receiving survivors' insurance.

Only 30 percent of the aged population are eligible for social insurance benefits, which are so meager that few can retire voluntarily.

Needed medical care is denied to millions of our citizens because they have no access to systematic and adequate methods of meeting the cost.

This, of course, is only a part of the story. Housing, community planning, and education are also presumably among the legitimate and necessary functions of a welfare state. In the United States today, however, governmental activity in these fields is pitifully inadequate to meet the obvious needs of the people.

But perhaps President Truman is proposing the creation of a welfare state? If so, the fact should certainly be apparent in his Budget Message which contains detailed proposals for taxing and spending during the fiscal year 1951 (that is to say the twelve-month period beginning next July and ending in June 1951).

An examination of this message, however, shows that the Presi-

dent has no large changes in mind. If we compare 1951 with 1949, the latest actually completed fiscal year, we find that total expenditures are expected to rise from \$40 billion to \$42.4 billion. In both cases, very nearly \$30 billion goes for purposes which the President himself calls "war-connected:" national defense, veterans, international affairs, and interest on the national debt. The increase in all other categories taken together works out at \$2.8 billion. To this should be added an increase in payments from the various federal social security trust funds of \$1.8 billion. In other words, if the President's proposals are all accepted (which, of course, is unlikely) total non-war-connected expenditures will rise by approximately \$4.6 billion.

How much of this increase can reasonably be said to be "welfare-state-connected?" Let us make a generous estimate by including the sum of all increases under the headings of social security, housing, education, and agriculture, plus the entire increase in payments from federal government trust funds. In this fashion we get a figure of \$3.6 billion.

If we don't have a welfare state now, we certainly aren't going to get one by spending an additional \$3.6 billion. Ten times as much would be a more reasonable estimate of what would be required to make a serious start toward building a welfare state that really looked after the welfare of its citizens. And even that figure would have to be progressively and fairly rapidly raised in succeeding years. The eventual annual cost of a genuine welfare state in this country would certainly be more than \$50 billion and might be closer to \$100 billion.

Fantastic figures, you may say, and in a sense you would certainly be right.

For one thing, as long as the warfare state (Senator Douglas's term, it is said, and clearly his outstanding achievement as a legislator) continues to absorb as much as \$30 billion a year, a comprehensive and adequate welfare program will be out of the question. Henry Wallace has been hammering away on this theme ever since he resigned from the Cabinet more than two years ago, and he is absolutely right to do so.

What this means is that cold warriors—and that includes just about everybody who amounts to anything in both major parties—have no business talking about the welfare state. If they say it exists, whether they are for it or against it, they are talking nonsense. And if they proclaim it to be their goal, they are, like the long-haired preachers, promising pie in the sky.

Suppose, however, that the cold war were called off and war-connected expenditures were steadily cut back. Would the welfare

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state then be a realistic goal? Mr. Wallace obviously believes so, and the whole Progressive Party platform in 1948 was based on that assumption. This platform might even be described as a rough blueprint for a welfare state, with the cost of implementation most likely falling in the range of \$50 to \$100 billion mentioned above.

Such a goal is certainly within the *physical* capacities of this country. Of that there can be no doubt. But we do not believe for a moment that it is within the social and economic capacities of the capitalist system.

The capitalists themselves are always telling us that their system cannot be expected to care for the welfare of the people: it requires enormous rewards at the top and the spur of poverty and insecurity at the bottom to keep it going. And, though of course their self-interest leads them to exaggerate, there is every reason to believe that there is a hard core of truth in what they say. If you are going to maintain capitalists and let them run the economy, you cannot at the same time tax away most of their surplus values; if you expect workers to work hard and conscientiously for the profit of others, you cannot at the same time guarantee that their welfare will be provided for by the state.

Because the Progressive Party does not understand, or prefers to ignore, these facts, its program—which could be summed up as an honest-to-goodness welfare state under capitalism—has an air of unreality about it which is immediately sensed by the very people to whom it is supposed to appeal. The man in the street simply doesn't take it seriously. And, considering that in ninety-nine cases out of a hundred he assumes without question the continued existence of the present system, you have to admit that he could hardly be expected to react differently.

So long as this country remains capitalist, we are safe in saying that the welfare state doesn't exist, isn't planned, and couldn't be achieved. As the term is bandied about in present-day American politics, it is either a fraud, a piece of shameless demagogery, or an unrealistic utopia.

Of course this doesn't mean that improved welfare programs are impossible under capitalism. The experience of other capitalist countries proves that the United States, though it is by far the richest country in the world, is miserably backward in the fields of social security, medical care, education, and housing. (See, for example, the article on Australia and New Zealand which begins in this issue of MR.) The American people are demanding much more than they are getting, and even the capitalist parties feel obliged to make certain concessions, however niggardly and inadequate they may turn out to be in practice. It is obviously the duty of the Left to

take the lead in pressing for improved welfare programs which can bring real and important benefits to the masses of the people.

But it is also, we believe, the duty of the Left to tell the people the truth—that nothing like a real welfare state is possible as long as our productive system is owned by and run in the interests of a tiny minority, that the vast potential of this country will remain unrealized unless and until planned production for community consumption has replaced anarchic production for the profit of private capitalists.

THE INDONESIAN STORY

We have read a great deal lately in the American press about the Republic of the United States of Indonesia and also about the Netherlands-Indonesian Union which ties the former Dutch colonies to the former mother country in what is supposed to be a marriage of equals. These political creations have a tortured history, especially in the years since World War II; and they are probably as complicated and confusing as anything known to that intellectual discipline which goes by the name of political science in our institutions of higher learning.

The Republic, for example, consists of two parts. First, there is the territory which was under the control of the former Indonesian Republic which alternately resisted and compromised with the Dutch from 1945 to the middle of 1949. This territory has some 30 million inhabitants. Second, there are nearly a dozen and a half states, backward and feudal in structure, which were for the most part under Dutch puppet governments during the years 1945-49. The population of these states is approximately 45 million. The new Republic has a provisional constitution which appears to put substantial, if not decisive, power in the hands of the former puppet states. It will elect a constituent assembly to draft a definitive constitution within a year. In all this the Dutch seem to have done well for themselves, though of course these various states and constitutions may turn out to be much less important in practice than they appear on paper.

The Union is an elusive affair, presided over by the Dutch monarch (who is merely a symbol of "voluntary and lasting cooperation" according to the Dutch-Indonesian agreement, but who wears the "Crown of the Union"—which seems to be something else again—according to the Dutch Constitution). Its executive organ is a sort of joint cabinet committee, and disagreements or disputes are to be

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settled by a Court of Arbitration on which both sides are equally represented. If, as we should normally expect, the Court is deadlocked, it will get that notoriously effective institution the International Court of Justice to appoint an additional member of a third nationality and will then reconsider the case. This is known as blazing a new trail in the jungle of international relations.

All this is very interesting and will be puzzled over by learned jurists and political scientists and made the subject of PhD theses by hopeful students for a long time to come. It may also serve as an artful cover for the underlying economic and social realities which constitute the substance of Dutch-Indonesian relations.

While we do not pose as experts on these underlying economic and social realities, we may nevertheless be permitted to hazard a few opinions on some of the more important outstanding issues. We do so on the basis of factual information which is generally available and which is—as attentive readers of, say, the *New York Times* editorial page will agree—capable of supporting different conclusions.

The fundamental factor behind all Dutch-Indonesian relations is simply that from early modern times the East Indies have been one of the most lucrative of all the world's colonial territories. Such things are not easy to measure but they are not difficult to illustrate. For example, shortly before World War II, two Dutch economists calculated the average dividends paid out over a period of years by two groups of Dutch corporations: (1) those operating mainly in the Netherlands, and (2) those operating mainly, through branches or subsidiaries, in the East Indies. Here are the figures as reproduced in an article in the *Quarterly Journal of Economics* of February 1942 (Erich Schiff, "Direct Investments, Terms of Trade, and Balance of Payments"):

<i>Year</i>	<i>Group 1</i>	<i>Group 2</i>	<i>Year</i>	<i>Group 1</i>	<i>Group 2</i>
1922	4.8%	10.0%	1931	2.2%	3.0%
1923	4.2	15.7	1932	2.1	2.5
1924	4.5	22.5	1933	2.2	2.7
1925	5.0	27.1	1934	2.1	3.3
1926	5.2	25.3	1935	2.0	3.9
1927	5.6	24.6	1936	3.3	6.7
1928	5.6	22.2	1937	4.5	10.3
1929	5.4	16.3			
1930	4.9	7.1	<i>Average</i>	4.0	12.7

On the average, the corporations operating mainly in the East Indies paid dividends three times as high as those operating mainly in the mother country; and while the gap between the two groups was almost closed at the bottom of the Great Depression, it opened up

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again as the business cycle entered an upward phase.

The flow of profits between the East Indies and Holland was, of course, interrupted during the war. To restore this flow has been the be-all and end-all of Dutch policy ever since the war.

But others have also been eyeing the same prize. The Indonesian bourgeoisie, centered mainly in the more advanced parts of Java and Sumatra, naturally wants to keep for itself as large a share as possible of the profits arising from the Indonesian economy. And in the great world outside, American capitalists are hungrily watching their chance.

All this creates a complicated pattern of interacting forces. The Dutch have sought as far as possible to restore direct domination over The Indies, a domination based upon military force, possession of the key positions in the Indonesian state apparatus, and an alliance with the feudal landlord and religious elements. The main weapons in the hands of the Indonesian bourgeoisie have been on the one hand leadership of the national independence movement and on the other hand the ability to make an alliance with the Americans against the Dutch. Finally, the United States interests have had not only a good bargaining position vis-à-vis the Indonesians but also the capacity to bring pressure to bear on the Dutch which results from the Netherlands' position as a Marshall-Plan and Atlantic-Pact satellite in western Europe.

The postwar drama in which these three protagonists have played the leading roles has taken place in several acts, with the scene shifting from Indonesia to Lake Success (and Washington), back to Indonesia, and finally to the Hague for the Round Table Conference which gave birth to the Republic and the Union. Each has used his weapons to the full, sometimes skillfully, sometimes blunderingly. The Dutch have resorted freely to armed force (under the polite name of "police actions") and have busily organized their feudal allies; the Indonesian bourgeoisie has relied heavily on the Indonesian national independence movement; the Americans have played along with the Indonesians through the United Nations and have brought pressure on the Dutch by withholding from them Marshall Plan funds intended for use in the East.

The "solution" which emerged from the Round Table Conference is a compromise which reflects all these counteracting pressures (and others—especially those having their origin in the exigencies of the cold war—which must be omitted from consideration in a brief summary like this). It completely satisfies no one but contains compensations for all.

The Dutch secured an Indonesian commitment to respect established and legitimate Dutch financial and commercial interests. They also managed to retain some part of the controls which they

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(rightly) consider to be necessary to make this commitment more than a scrap of paper: the naval base of Surabaya will continue in Dutch hands; the structure of feudal states remains intact; the Dutch bureaucracy will remain on the job for all least two years; etc.

The Indonesian bourgeoisie, on the other hand, has made substantial gains, similar to, though more restricted than, those made by the Indian bourgeoisie when the British relinquished formal control of India. They are still subject to Dutch military pressure, and they are hemmed in by the feudal states. But they have much more authority in their own house than they had before, and they have the formal status of an independent nation which opens up an unlimited field of maneuver for future advantage.

It is on this field that the Americans too hope to reap a rich harvest; in fact, by far the most important American aim at this stage of the game was a sufficient relaxation of the Dutch grip to leave Indonesia open to the future penetration of American capital. This aim has been amply realized: the Dutch may be able to hang on to what they have for quite a while, but it seems highly unlikely that they will in the future be able to monopolize the profits of the Indies as they have done in the past.

The Round Table Conference, from which the Republic and the Union emerged into the light of day, brought down the curtain on one drama, but only to announce the imminent opening of another. The same three protagonists will be on the stage, trying to recoup their losses or extend their gains. But next time there will be other major actors, actors who up to now have been confined to supporting roles or who have only occasionally made their voices heard from the obscurity of the wings. The plot, too, will be different: in the final act those who used to count for little will, after many trials and tribulations, rise to power and inherit the wealth of the Indies.

Who, then, are these newcomers who will dominate the state in the future? They are the peasants and handicraftsmen, the plantation hands and industrial workers, in short the toiling masses of Indonesia whose function in the past has been to produce a surplus product for others. For the last two or three decades, and especially since the war and the Japanese occupation, these people have been increasingly stirring, learning, hoping. They supported the movement for national independence and took up arms against the Dutch with much more determination and enthusiasm than their bourgeois leadership expected them to. It is their evident readiness to fight that forced the Dutch to concede the substantial measure of independence which the Republic represents.

But the masses of Indonesia have little to expect from the Republic. Its leaders are interested in using them but not in helping

them. The Indonesian bourgeoisie wants the profits that used to go to the Dutch and American capital; the restoration of the one and the attraction of the other both require cheap and docile labor. So even if the Dutch are kicked out entirely, and whether or not the Americans take their place, the lot of the worker and the peasant will be affected but little.

This may not be apparent for some time. But, in the words of the proverb, "truth will out"; and when it does, the Indonesian people will come to understand that national independence, even complete national independence, is hollow unless it is combined with liberation from the yoke of exploitation—capitalist and feudal alike. And when that happens, they, following in the footsteps of their Chinese brothers and neighbors, will move forward on the revolutionary road to a new socialist society.

HUNGARY AND THE PRESS

Hungary has made the headlines on numerous occasions during the last couple of months. Several Americans who had legitimate business in Hungary seem to have aroused the suspicions of the Hungarian authorities that they were using their spare time for other purposes. Such suspicions are, of course, completely unfounded. Every one knows that American agents exist only in the fevered imaginations of a few Communists, that the millions of dollars set aside by the American government for intelligence work are spent for the purchase of newspapers and magazines, and that talk about "Project X" was only a subtle method of persuading the romantic Italians to vote for DeGasperi and the Pope. It is therefore not surprising that the American press has devoted a great deal of space to exposing these latest outrages of the Cominform barbarians.

All this is doubtless as it should be. But in its concern over the fate of American non-agents in Hungary, the press seems to have overlooked another news story from that benighted country. The end of 1949 marked the end of the first Hungarian economic plan, the Three Year Plan adopted in 1946; and on January 1, 1950, a new Five Year Plan went into operation. Some of the results of the earlier plan and some of the targets of the new plan are worth recording. (We follow the account published in the London *Times* of December 5th.)

The primary goal of the Three Year Plan was to restore the output of agriculture and industry to the pre-war level. This goal was successfully reached in about two and a half years and was substantially surpassed by the end of the period. When the plan was

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launched, a little more than a third of industry was state-owned; today nationalized industry accounts for more than 90 percent of the total.

The new plan puts great emphasis on building up heavy industry. Of a total projected capital investment of £1,500 million, no less than £600 million is to go into heavy industry. Nearly 500,000 new industrial workers will be absorbed during the five year period, and half of this number will be trained specialists. (In order to appreciate the significance of these figures, it must be remembered that the total population of Hungary is around 8 million. Hence a half a million industrial workers in Hungary would be roughly equivalent to 9 million in this country.) Both industrial production and living standards will be nearly doubled by the end of the new plan.

Changes of a no less revolutionary character are contemplated in the life of the Hungarian peasantry which had, until 1945, been more encumbered and oppressed by feudal survivals than the peasantry of any other European country. The tractor park will be increased from 3,500 to 22,800. Every village in the country will be provided with electricity, telephones, radio, and movies. Enough cotton will be grown to make the Hungarian textile industry self-sufficient, and some 125,000 acres of land will be brought under cultivation through irrigation schemes.

In the field of public works, ten new bridges will be built over the Danube and the Tisza rivers; Budapest will get a subway as well as new theaters, a stadium, gymnasias, and swimming pools.

It all adds up to one thing: Hungary is rapidly building a powerful socialist economy, a process which means life and hope—and, yes, freedom—for millions of people who under the old order were condemned to an existence of economic stagnation and social degradation. No doubt many members of the former privileged classes have suffered and more will suffer, some unjustly. Revolutions, as the American Tories could testify in their time, have a way of breaking eggs to make their omelets. But this does not change the fact that, like all successful revolutions, the Hungarian revolution is actually making an omelet, and it is one that the common man, if not the cultured gourmet, can appreciate to the full.

That, gentlemen of the press, is the real front-page news out of Hungary these days. It might be a good idea to pay a little more attention to it in the future. Its significance, you may be sure, is not limited to Hungary or even to eastern Europe. It already has a very special meaning for countries like France and Italy and Austria, and as time goes on it will have an increasing meaning for Germany and Britain and—who can say?—perhaps even for our own country.

(January 20, 1950)

THE TWO ROADS FOR WORLD ECONOMY

BY OSCAR LANGE

World War II has hastened and intensified great social transformations in the economy of the globe.

One might describe these processes broadly as a world-wide crisis, attended by a constriction of capitalism and the progress and extension of socialism. But it is possible to classify them more precisely:

1. Dynamic development of planned socialist economy in the Soviet Union. Elimination of capitalism by the countries of eastern Europe and by certain countries of central Europe; the entrance of these last into the path of socialism.
2. Separation of China from the orbit of imperialism. Aspiration of colonial and semi-colonial territories for independence. Disintegration of the imperialist system in Asia and Africa.
3. Chronic balance-of-trade crisis in the countries of western Europe, involving the economic and political dependence of these countries on the United States.
4. Growth of the productive capacity of the United States as a result of the war. Strengthening of the grip of the great monopoly capitalists on the American national economy. Development of the United States as the principal source of export of capital and merchandise in the world and as the first imperialist power.
5. Spread of the economic crisis in the United States and in all capitalist countries whose national economy is linked to that of the United States.

To sum up in a few words, the socialist economy and that of countries moving toward socialism is expanding. Their productive power is growing, and their internal cohesion is increasing at the same time that their geographical area is being extended. On the other hand, the capitalist economy has seen its field of action

Dr. Lange was a Professor of Economics at the University of Chicago until the end of World War II. He resigned to become the new Poland's first Ambassador to the United States, and he subsequently served as Poland's representative on the Security Council of the UN. He is now in Poland where he holds the following positions: member of the Central Committee of the United Workers' Party, President of the Foreign Affairs Commission of the Polish Diet, and President of the Central Union of Polish Cooperatives. This article is translated, in slightly abridged form, from Cahiers Internationaux, December 1949.

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growing more and more restricted. It suffers from internal contradictions, manifested by the decay of the colonial system, by the change in the balance of power between old imperialist powers of western Europe and the young and aggressive imperialism of the United States, and by the deepening of the general economic crisis.

Let us analyze these different processes.

Growth of the Economic Power of the USSR

The war put the productive capacity and power of organization of the planned socialist economy of the Soviet Union to a stern test. From this test the Soviet economy emerged victorious. Industry and agriculture fulfilled their task of supplying an enormous army which first bore the shock of the powerful war machine of Hitler's Germany and then routed the forces of the enemy. This result was achieved although an important part of Soviet territory was occupied by the Nazis. At the same time, the Soviet economy succeeded in meeting the essential needs of the civil population, even finding in the last years of the war enough resources to undertake the reconstruction of devastated regions and to develop the country's productive equipment without neglecting the cultural needs of its inhabitants.

These results were obtained thanks to socialist planning of the economy. It is this that made of a country formerly backward and primitive a world industrial power of the first order. It is this also that revolutionized the technical procedures used by an agriculture formerly no less archaic, and made it possible to obtain those vast increases in production required by the growth of the industrial population, and in war time by the armed forces. The industrialization of the country and the collectivization of agriculture were the bases of the power that conquered Hitler's Germany. Planning also made it possible for the country to pass rapidly over to a war economy and to move industrial establishments from regions threatened by the enemy to places of greater safety.

The planned economy of the Soviet Union rests on the collective ownership of the means of production. The collective ownership of the means of production is necessary and fundamental to effective economic planning. It creates, in effect, that singleness of purpose which national economic planning requires and puts all the economic resources of the country at the disposition of the planning agencies of the state. In this manner all economic resources are fully utilized for the realization of the plan. Collective ownership of the means of production, in fine, concentrates the effort of the masses of people, liberates the initiative and the creative forces of the workers, stimulating a noble competition among them and giving birth to a new

socialist attitude toward work. It is in this that the superiority of the planned socialist economy over the capitalist economy consists. For the first time in history man becomes the conscious director of his social and economic situation and the free creator of his own destiny.

The governing lines of the postwar reconstruction and economic development of the Soviet Union are contained in the fourth Five Year Plan, which embraces the period 1946 to 1950. This plan calls for an increase of 48 percent in industrial production and 27 percent in agricultural production over the levels of 1940. A comparison of these figures with those of 1938 shows an increase of over 70 percent in industrial production.

During the three years immediately following the war, agricultural production had almost reached the level of before the war. During the past year, industrial production surpassed 1940 levels by 18 percent, promising an even greater increase for the current year. The following figures give evidence of the dynamic increase of industrial production in the Soviet Union, an increase over the preceding year that amounted to: 20 percent in 1946, 22 percent in 1947 and 27 percent in 1948.

Such progress indicates clearly that the Five Year Plan will not only be entirely fulfilled, but even surpassed. The planned socialist economy of the Soviet Union has succeeded in fulfilling tasks imposed by reconstruction and postwar economic development with the same success as those with which it was confronted in the course of the war and the period that preceded it. On the basis of these results, the peoples of the USSR have been able to set for themselves as a practical goal the transition to the second phase of communism.

Such rapid progress in the productive strength of the Soviet Union makes that country a factor to be reckoned with in world economy. In the markets of the world, the USSR plays a significant part as an exporter of agricultural produce and raw materials and an importer of the products of other countries. For the peoples' democracies, linked to the Soviet Union by common social and political interests, it is the mainstay of their political and economic independence, permitting them to develop and realize their own national economic plans.

Progress of the Peoples' Democracies

One of the most important changes in social structure that occurred after World War II was the overthrow of capitalism in eastern Europe and in a part of central Europe.

Capitalism rested on feudal and semi-feudal survivals which

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still ruled over social life in the countries concerned, and on the domination of foreign finance capital which exploited them as if they were semi-colonial countries, drawing large profits for the benefit of monopolies while suppressing the development of their own productive capacity. Their ruling classes, entirely won over to fascism, either entered into an alliance with the Germans or were unable to put up any resistance to the invaders. Under these conditions, national liberation had to incorporate a social revolution at the same time. The fact that this liberation came about with the aid of the victorious Red Army made counter-revolution, as well as the return to power of the capitalists and great land owners, impossible. Once they were set up, the peoples' democracies liquidated the remnants of feudalism, proceeded to agricultural reforms, nationalized the banks, railroads, wholesale trade, and most of industry.

These social reforms constituted the basis of planned economy, liberating the productive forces and the creative capacity of millions of men from the fetters of feudal institutions and capitalist monopolies. From this, the peoples' democracies moved on to imposing plans for reconstruction and economic development, plans that already have been translated into reality.

Today these countries have started out on a new stage of their economic development, that of the industrialization of their economies and the modernization of their agriculture. The two are closely linked. Industrialization, in fact, demands increased agricultural output to provide raw materials for an expanding industry and food for the increasing number of men and women employed in the factories, railroads, and other services. On the other hand, the modernization of agriculture demands industrial expansion in order to satisfy its needs for implements, machines, and chemical fertilizer.

The peoples' democracies at the same time have entered on a phase of building the foundations of a socialist regime. In these countries, the road to socialism is closely bound up with the program of industrialization and agricultural modernization. At this stage of historical development, industrialization cannot be brought about except by means of public investment projected by the state, in other words by the growth of the socialized sector of the national economy. On the other hand, the modernization of agriculture involves a transition to collectivization, which is achieved by the development of rural cooperative production. And finally, all economic planning directed towards industrialization and modernization demands that capitalist elements, which might form a point of obstruction and sabotage the economic plan and the transformation of society, be eliminated from the national economy.

Thus the development of the national economy requires that

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we pass boldly to the stage of building the foundation of socialist regimes; the building of socialism in its turn demands a development, total and concerted, of the economic possibilities of each country. It is for this reason that industrialization, the modernization of agriculture, and laying the foundations of socialism are inseparable in the peoples' democracies.

The building of the basis of a socialist regime is not a spontaneous, automatic process. It is a conscious process, operating under the leadership of the working class, and under the direction of Communist and Workers' parties. Without this leadership and this direction, there is no road to socialism. A popular democracy may yield to retrograde processes, in the direction of capitalism. We have proof of this in the course of events in Yugoslavia, where for lack of a clear directive exercised by the prewar party, and in consequence of the lack of effective collaboration with the Soviet Union and the peoples' democracies, the governmental authority has undergone a Bonapartist degeneration. Capitalist elements multiply in the rural areas and the state has opened the door to penetration by foreign monopoly capital, with the result that popular democracy has been liquidated and the country has become the instrument of foreign imperialism. The degeneration in Yugoslavia has nevertheless made all other peoples' democracies understand more clearly than ever the necessity for a correct political direction, laying the groundwork for a socialist regime and for close cooperation with the Soviet Union and with one another.

The rapid growth of the peoples' democracies has increased their importance in international commerce. Suffice it to quote as an example the fact that the foreign commerce of Poland for the year 1948 was twice as great as in 1947. The relations between the peoples' democracies and the Soviet Union and among themselves have given rise to new principles, new forms of international commerce and economic cooperation, principles and forms which are the result of economic planning as well as of the common aspiration to achieve a socialist society.

Relations with the Soviet Union deserve particular attention. They differ radically from the traditional relations that prevailed, for example before the war, between the countries of eastern Europe and Germany, which consisted in those countries exporting agricultural products and raw materials to Germany, and importing industrial products in return, especially means of production. This classical relation between a strongly industrialized capitalist country and countries but little developed economically led to a situation in which the latter were dependent on the former.

The commercial relations between the peoples' democracies and

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the Soviet Union are quite different. Here the exchanges on each side include agricultural as well as industrial products, consumer goods as well as means of production. The peoples' democracies order raw materials from the Soviet Union, such as cotton, iron ore, manganese, and agricultural produce (principally wheat), but also tractors, machines, and industrial installations destined for heavy industry. On their side, they export to the Soviet Union raw materials as well as industrial products, such as textiles, machines, railroad cars, etc. On this basis, the total exports of the peoples' democracies to the Soviet Union have risen from \$14 million in 1938 to \$295 million in 1948, while the value of imports from the Soviet Union for the same period rose from \$7 million to \$355 million.

This fact demonstrates irrefutably that economic relations between countries with a socialist economy, or which are on the road to socialism, rest on other principles than the relations between capitalist countries. They show no sign of subordination or exploitation on the part of one country toward another. On the contrary, they lead to a harmonious and all-sided development of the national economy of all the countries, interested as they are in strengthening one another's economic position and in providing the conditions to guarantee their complete sovereignty.

In addition to trade relations, there are other forms of economic collaboration between the peoples' democracies and the Soviet Union, or between the peoples' democracies themselves. We should include in this the credit of \$450 million granted by the Soviet Union to help Poland's industrialization. Another example of the new aspect of this collaboration is the economic alliance between Poland and Czechoslovakia which has resulted in the reciprocal coordination of the basic elements of the economic plans of the two countries. We may mention also the exchange of improved technical procedures and inventions. These tendencies to engender new forms of economic collaboration have led to the creation of a Council of Mutual Economic Assistance, which includes the Soviet Union and the peoples' democracies.

It is proper to remark, however, that a forward step of this kind does not prevent the development of economic relations between the Soviet Union and the peoples' democracies on the one hand and the capitalist countries on the other, on condition that these relations are based on a principle of equality and respect for sovereignty, and are free of all imperialist pressure. Nothing offers better proof that such a development of economic relations with capitalist countries is possible than the relations between Poland and the Scandinavian countries. Our exports to Scandinavia, which amounted to \$24 million in 1938, rose to \$151 million in 1948.

Breakdown of the Colonial System

World War II greatly hastened the decay and downfall of the colonial system.

The colonies and semi-colonial territories used to provide a source of raw material for the leading capitalist powers, an outlet for the exportation of industrial products, and a field for capital investment. In a word, the colonial and semi-colonial system is really an integral part of imperialism, the final stage of the capitalist system. In the evaluation of capitalism, imperialism represents the phase characterized by the domination of the great monopolies of finance capital, which limit production and investments internally, export excess capital thus obtained, extending their mastery beyond the frontiers of their own country and dividing the entire world into territories dependent on them. At the present time, the old empires founded by the capitalist countries of western Europe are in a state of decay. This is the consequence, in part, of the drive of colonial and semi-colonial peoples towards emancipation, and in part, of the penetration and the economic domination of their territories by American capital.

The upsurge of colonial and semi-colonial peoples is the inevitable result of the laws of evolution of imperialism. The encouragement of the production of raw materials and the importation of industrial products coming from western Europe (and in the latest phase from the United States as well) have brought about the disintegration of the social systems which used to prevail in the overseas territories. This disintegration has proceeded more rapidly as a result of the development of local industries built up either by the investment of foreign capital or directly under the initiative of a newly-emerged native bourgeoisie.

Because of this development, a great crisis arose in simple handicraft industries which could not sustain the competition of manufactured goods. India furnishes a classic example of this. Elsewhere, as in Africa, a complete disintegration of the old traditional communal society has come about, provoked by the policy of the colonial authorities who wished to assure themselves of a plentiful supply of wage-laborers to satisfy the needs of the mines, the plantations, and the newly built factories. In both cases, the result has been a pauperization and a proletarianization of hundreds of millions of men, the building up of a reserve of wage-laborers according to a method that recalls unmistakably the process of primary accumulation in western Europe, described so strikingly by Marx.

The industrialization of colonial and semi-colonial territories nevertheless operates in an extremely unilateral manner. Monopoly

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capital does not wish to stimulate competition with itself in the mother country. This is why, in overseas possessions, only those industries are encouraged which do not threaten the interests of monopolies in Europe, that is to say especially the production of raw materials and of industries that do not have a monopoly structure in the mother country. In short, imperialism dislocates the ancient, pre-capitalist social order in the colonies and semi-colonial territories, but at the same time prevents the all-around development of economic resources and forces of production.

This is the origin of the movements of national emancipation. Restrictions imposed on the growth of productive forces by foreign monopoly capital limit the initiative and the spirit of enterprise of the local middle classes. In their opposition to the economic and political restrictions imposed by imperialism, the middle classes and the "intelligentsia" with whom they are linked find allies in the masses, whose discontent stems from their pauperization and proletarianization. On this broad basis, the united front for national liberation comes into being and grows in strength. The appearance of the workers' movement in its turn introduces the idea of social emancipation.

This process has been intensified in a remarkable manner by World War II. The war, in fact, obliged the great capitalist powers to mobilize all their economic resources, while depriving them of the possibility of maintaining their exports at the same level as before. This circumstance served as a spur to the colonial and semi-colonial peoples to increase their industrial development, which was extended now to branches of industry formerly under restrictions imposed by the finance capital of the mother country. Certain colonial and semi-colonial territories took an active part in the war and in consequence developed their own production for their particular military needs. In many cases, the colonial populations were enrolled in the army and drawn into military operations, which also brought about an increase in economic independence and an awakening of the political and social aspirations of the people.

The consequence of this state of things is the struggle for freedom which is going on in Indonesia and in Indo-China, in Malaya and in Burma, to which we must add the drive toward freedom which is showing itself among the peoples of Africa. Often these struggles are checked or diverted from their purpose by the local bourgeoisie. Out of fear of the aspirations of the masses, and especially of the working class, the bourgeoisie tries to come to an agreement with the old feudal elements, for example with the colonial authorities of the capitalist states. Then there occurs a split in the united front of national liberation, as happened in Indonesia and in Burma.

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Or else, as in India and Pakistan, the bourgeoisie contents itself with a quasi-independence, to which no internal social reform is joined. In every case the influence of American imperialism plays an important role, fully as great as the rivalry that makes the middle classes oppose the influence of the old imperialists of the mother country. Under these conditions, the struggle for national liberation is crystallized more and more around the working class.

The most important breach in the capitalist system has been made by the creation of the Chinese People's Republic. Led by a working class well organized and politically aware, with the Communist Party at its head, the powerful popular revolution in China has swept away all feudal institutions and is proceeding toward radical agrarian reforms. It has nationalized large industry, unified the country politically, and freed it from the grip of foreign capitalists and imperialists. Thus in China a popular democracy is being established which liberates the forces of production and the creative capacities of 400 million people and sets up a program of industrialization and economic modernization. We may therefore expect to see a period of great dynamism, of economic development and progress, open up in China.

The establishment of the Chinese People's Republic will hasten considerably the disintegration of the imperialist system in Asia. It will reinforce and revive the national movements of emancipation. But above all the Chinese Revolution offers new perspectives on the industrialization and economic development of colonial countries. Up to now this development was effected through the channel of imperialism by the supply of foreign capital, and at the expense of a pauperized and proletarianized population. Free China will open a new road toward industrialization and economic development for colonial areas by way of a popular democracy and a planned economy.

The Balance-of-Trade Crisis in Western Europe

One of the most serious symptoms of the general crisis of capitalism is the present situation of the countries of western Europe.

With great difficulty these countries are trying to surmount the destruction and dislocations inflicted by the war on their economies. Except for Great Britain, Holland, and the Scandinavian countries none of them had exceeded its prewar level of industrial production by 1948. They have barely succeeded in reaching that level, and some of them—Italy, for example—are seriously behind.

This slow pace is a result of the lack of basic social reforms which could have liberated the productive drive of the laboring masses and made possible a planned economy using to the full all

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the economic resources available for the reconstruction of those countries and their adaptation to their new place in the world economy. The great impetus toward such reforms, which appeared immediately after liberation, has been stifled by the political and economic pressure of the United States. Under the protection of the Americans, the domination of monopoly capital was reestablished—with the participation in certain countries of feudal elements.

Before the War most of the countries of western Europe had an unfavorable trade balance with regard to the rest of the world. The difference was compensated by revenue from capital invested in colonies and semi-colonial territories and by income from shipping, banking, insurance, etc. This revenue constituted what is called "invisible exports" and permitted western Europe to balance its payments. During the war, a considerable part of foreign investments had to be liquidated in order to pay for imports needed for the conduct of the war (this observation concerns Great Britain particularly). The revenue from shipping and banking has also diminished, partly because of losses borne by the merchant marines during the war, and partly because the capitals of the western European countries have ceased to be the financial centers of the world.

The trade deficit has increased still further as a result of wartime destruction, the deterioration of machinery, and increased demand for products and merchandise imported from abroad. With the exception of Great Britain, almost all the countries of western Europe exported less in 1948 than before the war and imported much more; and although Great Britain has increased her exports and reduced her imports, she has not succeeded in making up the deficit in her balance of trade.

For the countries of western Europe now under the Marshall Plan, the deficit in the balance of trade reached \$2 billion in 1938. It was compensated to the extent of \$1.3 billion by revenue from capital invested in foreign countries and from the provision of services. In 1948, in spite of a sharp recovery from the previous year, the deficit rose to \$5.1 billion at present exchange rates, and the figure of invisible exports to \$1.8 billion, which left a deficit in the balance of trade of \$3.3 billion.

The situation of the countries of western Europe is aggravated by the fact that after the war there was a readjustment of their foreign trade in the direction of an increase of imports from the United States and a decrease of commercial exchanges with the countries of eastern Europe. In 1948, the exports of western Europe to eastern Europe were only 43 percent of the level of 1938, and the imports from eastern Europe were only 41 percent of the prewar volume. During the same period, the deficit in the trade balance of

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the countries of western Europe with relation to the United States increased greatly. France's deficit, for example, rose from \$80 million in 1938 to \$509 million in 1948, Italy's from \$17 to \$297 million. In the same year, all the countries that were beneficiaries of Marshall aid had a deficit towards the United States of \$3.7 billion.

It is also proper to observe that the balance-of-payments situation of the countries of western Europe is aggravated because of large outlays for armaments. These outlays are the result on the one hand of the policy of defending crumbling empires, and on the other of treaties such as Western Union and the Atlantic Pact. Great Britain, France, and Holland maintain large military establishments, principally beyond their own frontiers. France and Holland are carrying on, or have carried on, colonial wars. As for Great Britain's overseas military expenditures, which in 1948 amounted to £115 million, they have now reached £112 million for only the first half of the current year [1949], that is to say they will almost have doubled over the preceding year. The maintenance of such military establishments absorbs the productive forces of the nation, diminishes its ability to export, and increases its need for imports.

The deficit in the balance of payments of western Europe is being met at present by subsidies under the Marshall Plan. But that does not answer the problem. The countries of western Europe do not constitute a closed economic region. They compete with one another economically. Neither can they expect an increase in their exports to the United States, or to markets where they would meet serious competition from American exports. Without a definite effort to adapt their economic structure to the new conditions of world economy, the countries in question are condemned to need American aid permanently, and as a result to vegetate economically. This cannot happen without bringing about a complete loss of their independence.

There is no solution for them other than a profound change in the structure of their foreign trade. This change would require economic collaboration with the Soviet Union and the peoples' democracies and also with their former colonies or semi-colonies, but this time on the basis of equality of exchange, without imperialist pressure and exploitation.

This change, however, demands a fundamental readjustment of the whole structure of production, impossible to conceive outside of a planned economy and a preliminary transformation of the social structure by which it is conditioned. The Marshall Plan makes this readjustment, and in fact any change in the economic structure of western Europe, impossible. On the contrary, it tends to widen the gulf between eastern and western Europe, and to plunge the latter

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into a state of complete economic and political dependence on the United States, converting it in fact into a field of exploitation for the profit of American monopolies.

American Imperialism

As a result of World War II the United States has become the leading capitalist and imperialist state in the world. At the root of this development we find on the one hand the expansion of American productive power stimulated by the war, and on the other the extension of the power of the great capitalist monopolies.

In 1948, the industrial production of the United States exceeded that of 1937 by 70 percent. There was a similar increase in the production of wheat. These increases were the result of several factors: "full employment" during the war and the period immediately after; the total mobilization of 10 million men who, before the war, constituted the reserve of unemployed workers; the mobilization of implements of production not formerly utilized; and finally, technical progress achieved during the war.

During the period of hostilities and the preceding years, moreover, the concentration of capital and the hold of the great monopolies on the national economy were intensified, thanks to the accumulation of war orders in the hands of the great industrial trusts. Thus, for example, in manufacturing industries, firms employing over 10,000 workers accounted for only 13 percent of all the working population in 1939; while in 1944 they accounted for 31 percent. The report of a Senate Committee summed up the situation as follows: "Taking manufacturing as a whole, the giants expanded greatly, while all other firms, especially small business, suffered a substantial decline."

The great profits enjoyed during the war gave an impulse to a powerful process of amalgamation consisting in the purchase of small enterprises by large ones. According to another official report, the number of such amalgamations during the last quarter of 1947 was the highest to be recorded since 1930. The number of corporations controlled by a restricted financial oligarchy has also increased.

Thus the national economy of the United States is in greater measure than before the war under the domination of a few large trusts, which in their turn are in the hands of a limited number of families.

The increase in productive power and the tightening of the grip of the great monopolies on the economic life of the nation have made the United States the greatest imperialist power in the world. Formerly a debtor country, it has become the biggest creditor and exporter of capital in the world. This is a result of the very structure

of American foreign trade. In 1938, the favorable trade balance of the United States was \$265 million, but by 1947 it reached \$9.6 billions, while in 1948 it fell to the still-astonishing figure of \$5.5 billions.

A special characteristic of the American export of capital is the role played by the state. In the imperialist period in western Europe, the export of capital always proceeded in step with the expansion of the capitalist state overseas. The export of capital was accompanied by political action, creating and consolidating the great colonial empires. The United States, which never in its history possessed a great colonial empire like that of England or France, is building one today by means of the political action of the state. It is the state that is trying to open up, to secure and dispose of territories suitable for investment by private capital. For this, it is necessary first to guarantee the very existence of the capitalist system in the territories in question. The struggle against socialism and popular movements represents the first stage of this policy, aiming, as we have already said, at the guarantee of markets for American capital.

Thus we can understand the important function of government loans and subsidies at the present time. We might cite as an example the Marshall Plan as well as the aid to Greece and Turkey, the main purpose of which is the maintenance of the capitalist system in those lands and to prepare them for the placement of private American capital. To complement the loans and subsidies in the political field, there is now a world-wide network of American military bases. Another effect of this program can be seen in the measures of economic discrimination towards countries that are unwilling to submit to the political and economic domination of America.

At the expiration of the period of political preparation, realized by the Marshall Plan and other similar measures, the territories aimed at will be wide open to the infiltration of private American capital. In the meantime, American capital penetrates wherever the political preparation is already completed, as in western Germany and Japan, where American Military Occupation has undertaken this task.

In western Germany, the penetration of American private capital is accomplished both in direct fashion, by the acquisition of stocks in German enterprises, and indirectly by the renewal and tightening of old connections, for example between Dupont de Nemours and I. G. Farben, General Motors and Opel, General Electric and AEG, with the American branch furnishing capital for the needs of the German partner. Such operations evidently re-

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quire the exclusion of all other political influences from western Germany, which explains the hostility to a common solution of the German problem by all the great powers, including the Soviet Union. This also explains the resistance to political unification of Germany and to the conclusion of a peace treaty, for both these things would put an end to the present situation of a western Germany entirely dependent on the United States.

The importance of Japan for the American capitalists lies mainly in the fact that as a result of the Chinese Revolution and the struggle for emancipation in other parts of Asia, the remaining regions of the Far East offer less security for the placing of capital.

The infiltration of American private capital is particularly noticeable in the Near East, in Africa, in Latin America, and in Canada. In all these regions, it supplants the capital of the old colonial powers, that is to say of the British, French, Dutch, and Belgians. We need only mention the setting up of American oil monopolies in the Arab countries, the penetration of American capital in the domain of rubber production in Indonesia, and the monopolization by the United States of purchases of uranium ore in the Belgian Congo.

This development has been facilitated by the balance-of-payments crisis in the countries of western Europe and their great need for dollars. It will continue to be served by the recent devaluation of the pound and the other currencies of western Europe, which resulted from American pressure, and which will permit American capitalists to buy, at better prices, a share of the capital invested in the colonial empires of the states of western Europe. Moreover, the Truman program, called assistance to backward countries, is likewise an instrument destined to facilitate the penetration of American capital into territories belonging to the old colonial empires.

In order to succeed in this policy of imperialist expansion, the United States maintains armed forces of a million and a half men, and this year [1949] is devoting \$14.3 billion to their maintenance. In addition \$6.7 billion are being spent on what is called "international affairs," that is to say for state loans and subsidies for the benefit of other countries, making a total of \$21 billion.

Thus the policy by which American capital seeks to assure itself of the conquest of the world is financed by the state treasury, at the expense of the tax payers. One might define this process as a transfer of revenue from the mass of the population to the hands of the great monopolists, who reap the profits of foreign investments to which the road has been opened by state funds.

Intensification of the Economic Crisis

We can now see the extent of the new economic crisis.

It coincides with a number of specific factors engendered by the war and by the reconversion of industry after the war to civilian production, namely: the huge purchasing power of the population accumulated during the war when wages were high and spending possibilities limited; the large investments stimulated, on the one hand, by the need for replacing factory machinery (which could not be done during the war and the depression period that preceded it), and, on the other, by needs linked to the conversion of industry from war to peacetime production. In the case of the United States, we must add to this the huge exports of the period during which that country was the principal source of food for the devastated countries after the war. But this favorable conjuncture of events no longer obtains. The capitalist economy is beginning to return to what we may call its "normal" state, as productive capacity expands beyond the purchasing power of the community.

The center of the growing crisis is the United States. It is there that the contradiction between the increase in productive power and the contraction of spending power shows itself most strongly. The index of industrial production, which in October 1948 had reached the top level of 175 (1937=100) had fallen to 145 in June 1949,* while the number of unemployed reached nearly 5 millions. The production of steel, which a year ago reached 94.5 percent of capacity had fallen in August 1949 to 82.3 percent. The volume of railroad carloadings during the same period fell from 86,000 to 69,000 per day. From the United States the growing economic crisis is spreading to other countries. In Belgium, in France, in Great Britain we notice an increase in unemployment, without mentioning Italy, where the crisis stemming from the United States has been superimposed on the local crisis, bringing total unemployment to over 2.5 million. At the same time, in all countries of western Europe we note clear signs of a slackening, indeed a collapse of industrial production.

The growing economic crisis must lead to the aggravation of divergences between the different capitalist countries as well as to a sharpening of the offensive by American capitalism. In the United States, military expenditures and loans and subsidies to foreign coun-

* These statistics are not identical with those given in official United States government sources, though they tell the same story. The Federal Reserve index of industrial production is based on 1935-39=100. It reached its post-war peak of 195 in October and November of 1948 and fell to 161 in July of 1949.—Ed.

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tries fulfill the function, among others, of propping up the economic situation and of maintaining the level of production and employment. This is why, along with dwindling investments of private capital and a contraction of the internal market, we must expect an increase in expenditures on armaments and a thrust of imperialist expansion. By means of a campaign against the Soviet Union and the peoples' democracies abroad and the famous "anti-Communist struggle" within the country, the capitalist oligarchy is preparing a favorable climate for this kind of policy.

It is doubtful, however, that an increased outlay for armaments and loans and political subsidies will be enough to prevent an accentuation of the crisis in extent and in depth. Under these conditions, competition will grow much keener on the world markets between the United States and the countries of western Europe, with the pressure becoming stronger to make them open their markets more widely to American products. American capitalists, no longer finding it profitable to invest at home, will try to invest abroad, especially in the territories set free from the old empires of the western European powers. The American market will grow less and less accessible to the exporters of western Europe. The situation of the latter will become progressively worse, provoking conflict among them and especially between Great Britain and the United States.

The greatest conflicts will arise in connection with the reconstruction of the economic potential of western Germany in its old form, designed for the exportation of products of heavy industry. In German heavy industry, the United States and the countries of western Europe have freed from its bonds a demon they will find difficult to control and one that will certainly exaggerate the economic unbalance of the capitalist world. At the same time, the aggravation of the economic difficulties in the capitalist countries will sharpen class opposition and class struggle and will strengthen not only anti-capitalist and anti-imperialist feeling but also the militant spirit of the working classes.

Under these conditions, we can expect: the aggravation of the general crisis of capitalism; the disintegration of the capitalist system on its colonial and semi-colonial periphery; the destruction of the balance between the different capitalist countries and the accentuation of class differences in the capitalist world as a whole; the intensification of the economic crisis in the very center of monopoly capitalism. The Soviet Union, the peoples' democracies and the new People's Republic in China are the supporters of economic stabilization, of the harmonious development of productive power, and of the elevation of the standard of living of the masses. The vigor and the planned character of their national economies insure

them against the most serious consequences of the general crisis of capitalism.

But at the same time they are exposed to a growing pressure on the part of imperialist forces. This pressure manifests itself particularly in an attempt to destroy their internal unity through the use of capitalist elements which have not yet been liquidated, in efforts to exercise an ideological influence on small producers, and finally in attempts to stir up discord among them by arousing nationalist feeling. The attack has broken down against the cooperation of these countries with the Soviet Union and among themselves, cooperation which is growing closer every day. This cooperation provides a nucleus around which the progressive elements of the world will group themselves as they strive to liberate man from the domination of a decaying capitalism, and to make him the master, the conscious creator, of his own destiny.

AUSTRALIA, NEW ZEALAND, AND SOCIALISM

BY AN AUSTRALIAN SOCIALIST

Part I: Australia

Though the Australians have their origins in the British Isles, they are not a cross-section of the people of the United Kingdom. They do not live in English, Irish, Scottish, or Welsh communities, and there is a higher proportion of Irish (and Roman Catholics) and Scottish (and Presbyterians) than in the motherland. Furthermore, the employers include a higher proportion of Presbyterians than their total number warrants, while the Australian Labor Party contains a disproportionate number of Roman Catholics among its leaders and organizers.

This one paragraph alone is probably sufficient to explain why Australia is not and never has been a socialist country. But there is more to be said. The United States has never had a Catholic president despite the number of Italian, Irish, and other predominantly Catholic nationality groups in its population; for over two centuries the United Kingdom has not had a Catholic Prime Minister. But while the percentage of Roman Catholics in Australia is less than 25, (the Church of England comprises 45 percent), Australia, since

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it became a Commonwealth in 1900, has had *five* Roman Catholic Prime Ministers. Up to the last election in December 1949, there had been six Labor Prime Ministers and ten non-Labor. The five Roman Catholics were Labor men.

Australia has one of the highest standards of living in the world. This is based on wool, wheat, meat, and fruit from her farm lands; on gold, iron, zinc, lead, coal, and other minerals; and on an efficient heavy industry. Its overseas trade per head is relatively high. Its main market is the United Kingdom which takes over half its exports; then come other British countries taken together which absorb about one-fifth. Two-fifths of Australia's imports come from the United Kingdom and about another fifth from other British countries. The United States supplies about one-sixth.

Though Australia is bound by ties of sentiment, debt, trade, and shipping to the United Kingdom, nevertheless there are large branches of American companies in Australia—Ford, General Motors, International Harvester, and so on, not forgetting Wrigley's.

Australia, in its history of a century and a half or so, has been a small United States, peopled and financed from abroad and building up its industries behind a tariff wall. And it has been as easy to make money on the rising tide of expansion as it has been in America. Australia, too, has its interlocking monopolies just as aggressive as any here. In fact, six corporations have almost as great an investment as that of all other manufacturing concerns put together. They are Broken Hill, controlling mining, shipbuilding, and many other fields; the Colonial Sugar Refining Company, the monopoly for Australia, New Zealand, and the South Pacific; British Tobacco; Australian Iron and Steel; Australian Consolidated Industries; and the Imperial Chemical Industry of Australia and New Zealand.

Australia is rich, modern, capitalist. It manufactures automobiles, airplanes, ships, chemicals, textiles, glass, tires and a whole range of consumer and producer goods. It has a powerful metallurgical and engineering industry. Its steel industry is of more economic importance than its wool industry. And all this is private enterprise and has never been anything else.

Australia is like the United States in another respect. It has a federal system with six states—and states' rights are as important as they are here. Under the constitution evolved by the United Kingdom in 1900, powers may be given to the central government either by the states giving them up, or by a federal vote followed by a referendum which must be passed by a majority in a majority of states. As in the United States and Canada, the federal-state set-up is a hindrance to change.

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Australia has, however, done far more than the United States (what other modern state has not?) in using the government mechanism for welfare purposes and to protect the interests of wide groups of the population. Australian public schools are free. Social services, which date back in some cases to the 1890's, are fairly well developed, though they have not reached the levels or inclusiveness of New Zealand or the United Kingdom. Australia has had for many years old age pensions, widow's pensions, invalid pensions, unemployment insurance, maternity allowances, and children's allowances for every child after the first. Since the war, these services have been improved and extended, and during the last year or so the Government has been trying—against constitutional barriers—to introduce a free medical scheme. In recent years also, the Australian Government has actively pursued a policy of full employment while absorbing a heavy influx of immigrants. Those receiving unemployment insurance in November last amounted to about 870.

The Australian railways are owned by the states as are some of the road services. Air services are partly government-owned and operated. Most of the production and distribution of electric power is by public authority. The federal government runs part of the broadcasting system. The telephone, telegraph, and cable services are government-owned. Some of the states have also from time to time entered into production or trade, for example, brick-works or meat-shops. Some long-term credit institutions are under government ownership, while the Commonwealth Bank is not only the central bank, but also is a competitor for commercial business. Banking in the main, however, is in private hands.

The famous Australian system of industrial arbitration as a method of determining what is a fair deal between employers and workers has been widely extended for many years. Instead of directly negotiating, or striking to obtain better wages, hours, or working conditions, most trade unions take their cases to the court which is composed of representatives of workers and employers and presided over by a judge. While every other man belongs to a trade union, the trade unions as a group (the Australian Council of Trade Unions) are not very strong or militant. The arbitration system turns the trade union official into a dues collector and an advocate. There are, however, some strong unions which do not use the arbitration system, including the miners and metal workers. And some of the stronger unions which do use the arbitration court have a habit of striking if they think the two-to-one majority on the court (judge plus employers' representative) has given them too raw a deal.

While a significant group of Australian trade unionists is class conscious all of this group is not socialist or Communist. Some

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derive their working-class philosophy from the Industrial Workers of the World. But the majority of workers are interested in their own conditions of life rather than in socialism. This is not to say they are capitalist. They are not interested in capitalism either. To many an Australian, the capitalists are "bloody capitalists" just as the government is "the bloody government."

The Australian is resentful of governmental power, and when he gets an opportunity to express his resentment, as in a referendum, he seems to do so. Every time a government has asked for an expansion of its powers by referendum, the electorate has said no, even when it was obvious to all but the most ignorant person that the extension of powers was necessary. And this has been so whether or not the government was Labor or non-Labor. In 1919, for example, a conservative parliament asked for power to control or nationalize monopolies. This was refused. In 1926, the non-Labor majority in parliament asked for power to regulate industrial and labor questions. The result of the referendum was negative. When a Labor-conservative government asked for power to control civil aviation, the electorate said no. When successive Labor governments requested similar powers, the electorate still said no. There is a sharp streak of non-cooperation in the Australians.

Of course, it can also be said that Australian governments have not distinguished themselves by protecting the civil liberties of the people. Both Labor and non-Labor governments have suppressed liberties. Labor, for example, in 1916, by the Unlawful Associations Acts, made the I.W.W. illegal. Menzies (the 1950 Prime Minister of Australia) was responsible a few years ago for a National Security Act, a most repressive measure which was not officially opposed by the Labor Party in parliament.

The Australian attitude to non-white peoples is also undemocratic (and, of course, non-socialist). Neither the Labor party nor the non-Labor groupings would advocate allowing non-whites to live in Australia. Only a few intellectuals, religious persons, and the Communist Party have any kind of liberal attitude on this question. As far as the mass of workers is concerned, the "White Australia" policy has an economic base; for both Chinese and South Sea islanders have been used as cheap labor in the past, and most Australians are aware of the effect of cheap labor on living standards.

Since the 1890's there have been Labor Parties in Australia (first in the separate states and later on a nation-wide scale), and today the Labor Party is recognized as the alternative to whatever name the conservative party goes under—just as in this country Democrats are the alternative to Republicans. One of the things to remember, however, about the Australian Labor Party is that it

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keeps its name. The alternative or "conservative" group has different public relations ideas from time to time. It has called itself Nationalist, United, Coalition, Country plus United, and Liberal. Recently victorious, it calls itself a Liberal-Country Coalition. The Labor Party, however, is famous for splitting; and, in fact, some of its leaders have become Prime Ministers in conservative governments. Cook, a Labor man, became conservative Prime Minister; Hughes, ex-Labor Prime Minister, was Prime Minister of the Nationalists for several years; Lyons, ex-Labor premier of the state of Tasmania, also was a Prime Minister for the conservatives for several years. (There is a case in reverse, where Holman, premier for the conservatives in the state of New South Wales, became a leading cabinet minister for federal Labor.) It should be added that when the Labor Party splits it is usual for the splinters to be absorbed in the conservative group and given cabinet rank or other favors.

Since the beginning of the federal system until December, 1949, the Labor Party has had 17 years in power and the conservative groups 32. Under both types of government, nationalization and social services have been extended. Both groups have advocated high tariffs, industrial arbitration, public fixing of wages and conditions of work, old age and other pensions, maternity allowances, and social security generally. If economic conditions were good, these services were extended or increased; if times were bad, they were reduced. It is true that in 1908 the Labor Party stood for nationalization of monopolies and in 1921 decided upon the socialization of production, distribution, and exchange as its aim; but Labor, judged by its actions, has never been a class or a socialist party.

An illustration from the recent past will show this. During the past eight years of Labor rule, social services in Australia have been moderately extended, full employment has been maintained, and all immigrants have been absorbed into jobs. The farmers have had far higher incomes than ever before, and profits have also increased rapidly. By maintaining an exchange rate for Australian currency which increased swollen farm incomes and protected the domestic manufacturer, the Government has pleased two of the main economic pressure groups and penalized the wage earners by increased prices. Since 1939, incomes of farmers have quadrupled but the share in the national income of workers has declined and the trend is still downward.

These things are politically possible because it is the floating vote that elects the government. This floating vote has no political allegiance. It consists mainly of small businessmen, professional and retired people, and some wage-earners. It may be no more than 10 percent of the voters, but it puts governments in or out. Voting is

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compulsory in Australia, and those who vote for Labor do so because it would never occur to them to vote for the other side. They are mainly wage-and salary-earners or small farmers. Those who consistently vote against Labor do so because they are equally convinced that it is the only possible course for them. They also include some wage-and salary-earners, but most of them are farmers, middle-class people, and businessmen.

The floating vote can be influenced by personalities. For example, eight years ago it voted against the conservative corporation lawyer Menzies partly because of his snobbish attitudes. It was said that he would not ride in a streetcar. On the other hand the lanky locomotive driver Chifley, who became the Labor Prime Minister, is a lovable, sincere, and obviously straightforward man.

Why was Labor defeated in the recent election? There are at least three reasons. One is that the dollar shortage of the Sterling Area had produced gasoline shortages in Australia. Some said that extra supplies could be got from France and blamed the Government for not getting them. This odd point was highlighted by the opposition and, despite its phoniness, was the reason for many car-owners voting against Labor.

Another reason was the Communist bogey. The Australian Labor Party is strongly anti-Communist and Chifley had used troops as strikebreakers in the coalfields against a strike supported by the Communist Party. But this was not enough. The propaganda barrage from the western side of the cold war has every day had its effect in Australia. And there was a percentage of people who could be persuaded that socialists were reds and even that the Australian Labor Government was socialist. For example, the following statement (described even by the London *Economist* as "extravagant, almost grotesque"), was made by Fadden, the leader of the Country Party (uneasy collaborators with Menzies, leader of the so-called Liberal Party): "If you choose the Labor Party, then your ballot will truly be your last will and testament, disposing in your own lifetime of your liberties and your property and condemning your children and your children's children to the living death of socialist regimentation."

The third issue was bank-nationalization. For years, Australia has had a strong hand in long-term lending and commercial banking, this form of state operation being approved of by both parties. Chifley (Minister of Finance as well as Prime Minister) knew much more about the private banking system than most finance ministers and decided one day (it was a shock to all) to remove the influence of the private banks on politics and on the economic system by nationalizing them. Parliament duly passed the legisla-

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tion. That was in 1947. Judging by the commotion this caused, one would have thought that anarchy, rapine, and murder were descending on Australia. The banks, the press, big business, and the Roman Catholic church campaigned most violently against bank-nationalization. The priests publicly denounced it. Chifley, who is an easy-going Catholic, realized that he had made a mistake, but it was too late to retreat. The High Court declared some of the sections of the 1947 Banking Act invalid. Dr. Evatt, Foreign Minister, took the case to the Privy Council. In July 1949, the Privy Council dismissed the Government's appeal. Some members of the cabinet (there are always firebrands in Australian and New Zealand politics) said that a little ingenuity would get round the legal problems, but Chifley had had enough. The Church had spoken, and in any case Chifley had to keep his party in power. He went into the elections saying that bank nationalization was dead. The opposition, however, preferred to keep it alive. The Bank of New South Wales, just before the election, quoted Lenin's statement: "we are all agreed that the first steps towards Communism must be such measures as the nationalization of banks." The priests remembered. And Chifley lost the election.

But what did Menzies have to promise to win? He said he would dissolve the Communist Party and repeal the bank-nationalization act. But he also said he would nationalize any utility not operating in the public interest; he would maintain full employment; and he would extend the children's allowance to include the first child. This last item was his main positive electoral bait.

It is clear that the Menzies Government in Australia is like its predecessors. It will retain nationalized utilities or perhaps even extend them; it will maintain the "welfare state" and even extend it. In foreign affairs, however, there will be a difference—Evatt will no longer be foreign minister. Evatt is a United Nations man and led the small powers against the great powers. He didn't like Bevin. As the London *Economist* has put it, he was "the spearhead of the emotional forces against oppression and for peace—sometimes, as during the blockade of Berlin, almost to the point of advocating appeasement." On the other hand, Australia was conservative in the Trusteeship Council; and in order to try to rescue the Catholic vote in Australia, the Labor Government was most active in promoting the unworkable internationalization of Jerusalem.

The new non-Labor Government will more obviously line Australia up with the United Kingdom, beat the Commonwealth drum, and abuse the Soviet Union. In the UN political committees Australia will become just another country—like, say, Belgium or Peru.

(To be concluded)

(continued from inside front cover)

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